

Independent Program Reviews

Lessons-Learned Summary and Recommendations

MARCH 2004/DT404L1

By Douglas T. Wheeler

INTRODUCTION

The IRS Office of Competitive Sourcing (OCS) asked LMI to suggest ways to improve its independent review program. This report describes the lessons LMI has learned by conducting these reviews for IRS and other agencies. This report does not feature detailed guidelines for conducting independent reviews. Experienced practitioners, such as the Naval Audit Service and the DoD Inspector General, have published guides that fulfill that need. Rather, we provide a high-level assessment of opportunities to improve the effectiveness of the program.

For the balance of this report, we use the term “most efficient organization (MEO) team” to describe the in-house team under the previous Circular A-76 as well as the agency tender team under the revised Circular A-76. The “review team” refers to the LMI and IRS team assigned to conduct the independent review. The “independent review official (IRO)” is the IRS official chosen to lead the review team.

BACKGROUND

The independent review process is not formally recognized in new competitions as defined by revised Circular No. A-76.¹ Many agencies, however, have benefited from these reviews and have decided to implement them to increase the value, consistency, and defendability of their tenders. An effective review program should not automatically follow the steps defined in the former independent review process. IRS should assess its competitive sourcing program and goals and tailor the review process to support them. Assessing the program clarifies the benefits of the review process for all stakeholders.

¹ Executive Office of the President, Office of Management and Budget, Circular No. A-76 (Revised) (including technical correction made by OMB Memorandum M-03-20), Washington, DC, May 29, 2003.

The views, opinions, and findings contained in this report are those of LMI and should not be construed as an official agency position, policy, or decision, unless so designated by other official documentation.

The previous OMB Circular A-76 documented the independent review process as a formal step in the competition process. The IRO had a powerful role: without IRO certification, the contract officer could not accept the MEO's proposal, stalling the competition until the IRO's concerns were addressed. Under the revised circular, the IRO does not retain this formal certification authority. (See Table 1 for the guideline changes.)

Table 1. Changes in A-76 Guidelines

Attribute	Original A-76	Revised A-76 ^a	IRS independent review policy
IRO role	Certifies MEO and in-house costs	Not required	Advises MEO team and competitive sourcing program office
MEO response	Strongly motivated to get IRO certification	Not applicable	Less concerned about IRO approval
Timing	Constrained time-scale—management plan must be completed before independent review begins	Time constraint removed because the independent review is not required	Can initiate an independent review earlier in management plan development cycle, reducing the impact on the schedule
Protests and appeals	Independent review process mitigates protests and appeals	There is no external review to mitigate protests and appeals	Independent review process mitigates protests and appeals

^a Revised May 29, 2003.

LESSONS LEARNED

Planning

SETTING EXPECTATIONS

Finding

Based on our experience, reviews of large programs succeed when the stakeholders know what the reviewers expect. In the A-76 process, the independent reviewer often plays an active role toward the end of the competition life cycle, leaving little time for the MEO team to comply with reviewer expectations. The MEO team often complains, "We wish we had known we needed this information 6 months ago."

Recommendation

Use specific language at the start of the competition process to set expectations for the MEO team. The MEO team and its contractors should be informed that the review team expects documentation for all costs in their proposal. In most cases, these costs should be traceable to the performance work statement (PWS); the MEO team can simply reference the appropriate section of the PWS and describe its adjustments and corresponding assumptions. If this documentation is not available, then the review team expects written justification stating why. The MEO team should explain how it estimated the costs.

The MEO team and its contractors can address these expectations more easily at the beginning of the competition process (as they are developing their costs) rather than just before the proposal is due. The review team could supply this guidance during the solicitation phase for PWS and agency tender support contractors.

TIMING

Finding

The PWS and MEO teams must work within the time constraints defined in the revised circular (12 months for most competitions). Under the previous Circular A-76, the IRS had to wait for the MEO management plan to be certified before initiating an independent review. Because the independent review is not a formal requirement of the circular, IRS has more flexibility to initiate this review before the agency tender is completed or certified.

Recommendation

Strive to give the review team at least 60 calendar days before the proposal submission date for a detailed review of the agency tender. This schedule is in line with the independent reviews of the Naval Audit Service.² It allows the MEO team to benefit from an outsider's perspective before its proposal is finalized. From our experience with reviews for IRS under the previous and the revised Circulars A-76, the MEO teams will benefit from early collaboration with the review team.

² The Navy averaged 87 days for reviews in 2000. Naval Audit Service, *Commercial Activity Study Independent Review Process*, May 2001.

Process Definition

FINDING

Although IRS has only recently initiated independent reviews, it can take specific steps to formalize its approach to improve consistency. Defense agencies with established independent review programs have created detailed manuals that define how reviews should be conducted. These independent review guides are valuable for promoting consistency at very large organizations with multiple review teams.

RECOMMENDATION

Create a unique independent review guide. Use a small cadre of experienced IROs and review team staff members to achieve consistency comparable to the review programs at the Defense agencies. IRS should document the unique steps in its review process to help communicate the program to internal and external stakeholders.

The high-level IRS independent review guide should address the following questions:

- ◆ How does the review team determine the solicitation requirements?
- ◆ How does the review team track the agency tender's compliance with these requirements?
- ◆ How does the review team assess the MEO's ability to perform the work in its proposal?

The IRS process can then reference (not repeat) other IRO guides as needed.

IRO Selection

FINDING

As mentioned earlier, the independent review process has lost its formal authority in the revised circular. The MEO team is no longer compelled to obtain IRO certification before submitting its proposal. IRS will gain value from the review process by finding and promoting incentives for the MEO team to respond to (if not comply with) the review teams' findings. The IRO plays a critical role in setting these expectations and delivering value to the MEO teams. By assigning a senior manager to act as the IRO, the review team gains a strategic perspective to supplement its tactical findings. The IRO should also be in a position to apply resources to quickly address and resolve contracting and PWS issues that might arise.

For example, LMI's review team raised a potential major finding with an IRS MEO team concerning its use of PWS data for a specific task. The IRO reviewed the findings from a strategic perspective and concluded that the MEO team had sufficient support for its approach in the event of an appeal. As a result, the review team did not ask the MEO team to address this finding. This example illustrates the "agency-level" perspective that the IRO requires.

RECOMMENDATION

Continue to recruit senior managers to fill the IRO position. Document the selection criteria for the IRO and apply it to future officials. This will improve the consistency of the independent reviews when additional IROs are recruited. Borrow from the IRO criteria in the previous circular. For example, ensure the IRO

- ◆ holds a senior management position (of a specific level or higher), which is able to apply resources (if needed) to resolve review team findings;
- ◆ is at an appropriate level to cut across IRS organizational boundaries to quickly address and resolve issues as they arise; and
- ◆ has no previous involvement with any aspect of the PWS or agency tender of the competition under review.

IRO Training

FINDING

IRS has benefited from having a single IRO review of the two most recent competitions. This experience helped the review team improve its efficiency and increase its overall value in the competition process. However, IRS may need to recruit additional managers to act as IROs for future competitions. Maintaining consistency will be critical when IRS utilizes multiple review officials.

RECOMMENDATION

Compose an "operating manual" for this position to prepare for IRO turnover. The manual would augment the IRS independent review guide, summarizing the critical requirements for and expectations of an IRO. Prospective officials would be able to quickly gauge their responsibilities and deliverables by reviewing this manual. IRS could also use this manual to help identify appropriate candidates. After reviewing this manual, IRO candidates could provide a self-assessment that compares their abilities with the manual's requirements.

The manual should include the following information:

- ◆ Brief background on A-76 competitions and IRS policy on independent reviews

-
- ◆ Objectives of the independent review
 - ◆ Roles and responsibilities of the IRO (and other stakeholders)
 - ◆ Level of effort (time required) of the IRO
 - ◆ Resources available to support the IRO (OCS, contract support, etc.)
 - ◆ A typical timeline for review team activities
 - ◆ Sample deliverables (templates)
 - ◆ Options for the MEO and review teams to resolve issues
 - ◆ Guidelines for major and minor issues (for example, an issue may be major if it leads to a 5 percent impact on the in-house cost estimate, IHCE)
 - ◆ Firewall requirements and the names or positions of people to whom the review team can talk
 - ◆ Guidelines for IRO and review team handling of procurement-sensitive documents.

Interaction with MEO Team

COMMUNICATIONS WITH MEO TEAM

Finding

IRS MEO teams often feel isolated from much of the competition. They derive much of this feeling from the IRS firewalls and their self-imposed secrecy.

Recommendation

Mitigate the MEO team's frustrations as follows:

- ◆ Keep the MEO team informed of review team selection process and status.
- ◆ Continue to confirm the primary location and requirements for on-site support with the MEO team before assembling the review team.
- ◆ Conduct a pre-planned kickoff meeting as part of the solicitation. Set this kickoff meeting at a location convenient for the MEO team leader.
- ◆ Distribute OCS review team documents (such as the IRS review process and IRS IRO manual) to the MEO team before the kickoff meeting.

WORK PROCESS WITH MEO TEAM

Finding

Each MEO team has one or two key members who develop the core workload assumptions. This approach helps the MEO team limit access to procurement-sensitive information. As a result, these individuals play a critical role in a successful review. Often, the other MEO team members cannot address specific review team inquiries.

Recommendation

Set expectations for these individuals at the beginning of the competition process. These critical MEO team members should understand that they are required to support the review team as part of their duties. To promote a successful review, the MEO team should make these people available for the kickoff meeting and as needed during the review period (8 weeks or more).

Interaction with PWS Team

FINDING

Inconsistent or unclear PWS information can hinder the review team. Although a PWS review was common under the previous Circular A-76, this review provides little value to IRS. An independent reviewer is limited to determining whether the PWS data is consistent and accurate and clearly state the workload requirements to estimate the costs of in-house contract support. Even if a review team has specific experience with the function being studied, it can have difficulty concluding whether the workload data provided is accurate and sufficient to provide a cost estimate. In our experience, releasing a draft of the PWS accomplishes superior results. IRS has adopted this approach for their standard competitions. After releasing a draft PWS, IRS gains valuable input from multiple sources who are directly interested in the document.

Even after publishing the draft PWS and refining it on the basis of the input received, the review team may discover faulty PWS data. This is one of the more serious issues review teams face, especially when it involves knowledge that only the MEO team possesses. This inequity in knowledge could lead to successful protests.

RECOMMENDATION

Establish guidelines for handling faulty PWS data. These guidelines should avoid prescribing specific steps because situations can vary. The review team would benefit more from a set of questions to apply in these situations. These questions would form a consistent “reasonableness test,” which all review teams could apply. They include the following:

- ◆ Is the PWS data accurate? Was there a typographical error?
- ◆ Can the MEO team argue an incumbent’s advantage?
- ◆ Does the incumbent have an advantage if the faulty PWS data are not disclosed?
- ◆ Was the data questioned by other prospective bidders during the question-and-answer period of the draft PWS publication?
- ◆ What other factors should the review team consider before requesting a modification to the solicitation?

Procurement-Sensitive Information

FINDING

There is an opportunity to mishandle procurement sensitive information during an independent review. IRS has actively promoted the use of firewalls during its competitions (including the review process). For example, we learned of IRS firewall requirements during the solicitation phase. The MEO teams reinforced this at our kickoff meetings, during which we were asked to sign a nondisclosure agreement. IRS offered separate locked work areas and file cabinets for the review teams. Throughout our review tasks, we witnessed a high degree of awareness concerning procurement-sensitive information at IRS.

IRS has established a sound culture for handling procurement-sensitive information. All active team members appear to be educated on avoiding the appearance of conflicts of interest.

RECOMMENDATION

Build on this success in the following ways:

- ◆ Consider reducing the number of review contractors to reduce the opportunities for mishandling sensitive information

-
- ◆ Establish guidelines for transmitting and storing procurement-sensitive information between the MEO team and the review team. Typical guidance includes
 - sharing electronic data through encrypted programs (such as password protected ZIP files);
 - storing electronic data on a restricted access server at the contractor's site;
 - storing physical documents in locked storage cabinets; and
 - destroying outdated paper copies.

Review Team Outputs

FINDING

Conducting independent reviews will help MEO teams provide defensible proposals for specific competitions, however, IRS should also investigate ways to improve consistency among various competitions. Standardizing the requirements and formats for independent reviews is critical.

RECOMMENDATION

IRS should take following actions:

- ◆ Create a standard IRO report format to give future independent reviews a consistent look. Require support contractors to use this standard.
- ◆ Require that the report address specific review actions, such as
 - independent assessment of all solicitation requirements;
 - agency tender compliance with all requirements;
 - line-by-line review of the IHCE (using the appropriate version of Compare);

-
- review of workload assumptions (how they arrived at staffing plan); and
 - categorizing results as major and minor findings.³
 - ◆ Review key components of agency tender (information technology systems, transport costs, etc.).
 - ◆ Review larger management issues (human resources coordination, reduction-in-force plan preparation, etc.).
 - ◆ Request an inventory of supporting documentation for all costs. If no documentation is available for specific items, the review team should ask for written justification that passes the reasonable test. This documentation was critical to independent reviews under the previous circular. Under the revised circular, IRS should decide whether the review team should withhold IRO approval on the basis of missing documentation.

Institutionalizing Lessons Learned

FINDING

IRS has instituted a practice of requiring lessons-learned documents from its review teams. Other agencies have applied this valuable process to help improve the overall performance of the review program. Many of these lessons-learned documents can be accessed through the SHARE-A76 website (<http://emissary.acq.osd.mil/inst/share.nsf>).

RECOMMENDATIONS

Continue to require lessons-learned summaries from each independent review. To supplement the summaries, IRS should standardize the feedback requested so the common elements can be easily compared among competitions. We recommend a lessons-learned form that asks for specific information, such as how to shorten the duration of the review and how to reduce the number of major findings. The review team should be encouraged to supplement these standard inquiries with other experiences and lessons from the unique aspects of that review. Finally, IRS should develop a records system to access and share these lessons with future MEO and review teams. One approach is to post these lessons learned on an IRS OCS website. Another is to maintain an electronic file at OCS that can be e-mailed on request.

³ The Air Force independent review guide defines a significant error as “an error in procedure, costing, or documentation which may, if not corrected distort the final outcome of the comparison or result in a successful protest by its existence.” U.S. Air Force, Deputy Assistant Secretary for Cost and Economics (SAF/FMCE), draft *Independent Review Guide for OMB Circular A-76 Commercial Activity Cost Comparisons*, April 29, 1997.

Independent Review Program Management

FINDING

How do you know that your independent reviews are adding value? It is difficult and unrealistic to expect the review team to make each competition protest-proof, but IRS should strive to measure the results of each review to understand its return on investment. We do not recommend summing the cost changes in the IHCE as a measure of this success. This would create an unhealthy incentive for review teams to chase costing assumptions at the expense of other agency tender issues, such as compliance with requirements and workload assumptions. Quantifying the number of major and minor findings of each review may also be misleading. Should the review team be faulted if the MEO team created a quality agency tender?

RECOMMENDATION

Conduct a post-review survey of the key stakeholders in the review process, especially the IRO and MEO team, to gain a solid understanding of the review team's performance. These respondents should be asked to candidly assess the quality (not quantity) of major and minor findings from the review team. Overall, did the review process add value to the MEO team's proposal or IRS obligations to support that proposal? If the answer is no to both of these questions, then the review team should find out how it can improve

CONCLUSION

We base our recommendations on our experience conducting more than 35 independent program reviews for civil and defense agencies. We also reviewed GAO protest records to gain an understanding of the key issues that drive A-76 competition protests and appeals. Although we cannot guarantee that these recommendations will eliminate protests and appeals, IRS and its MEO teams will benefit from the structure and consistency that these recommendations promote.